

Message Text

LIMITED OFFICIAL USE POSS DUPE

PAGE 01 TOKYO 13265 01 OF 02 021009Z

11
ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 AGR-05 AGRE-00 INT-05 /099 W
----- 082926

P R 020813Z SEP 76
FM AMEMBASSY TOKYO
TO TREASURY DEPT WASHDC PRIORITY
SECSTATE WASHDC PRIORITY 2020
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS UNN

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 13265

TREASURY FOR SYVRUD
DEPT PASS CEA, FEDERAL RESERVE AND COMMERCE

E. O. 11652: N/A
TAGS: EFIN, JS
SUBJ: REVISED ECONOMIC OUTLOOK FOR JAPAN

REF: TOKYO 8929

1. SUMMARY: EMBASSY CONSIDERS PREVIOUS FORECAST OF 6.7 PERCENT INCREASE IN REAL GNP DURING CY 1976 TO BE STILL APPROPRIATE (SEE REFTEL). PACE OF ECONOMIC ADVANCE HAS SLOWED FROM THE EXCEPTIONALLY RAPID AND UNSUSTAINABLE RATE OF INCREASE RECORDED IN THE EARLY MONTHS OF 1976. THAT SLOWDOWN IS FULLY CONSISTENT WITH EMBASSY'S PREVIOUS EXPECTATIONS. SOME JAPANESE BUSINESSMEN AND GOJ OFFICIALS ARE CURRENTLY CONCERNED ABOUT THE SLOWDOWN, FEARING THERE IS
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 02 TOKYO 13265 01 OF 02 021009Z

LOSS OF UPWIND MOMENTUM AND THAT THE RECOVERY PROCESS MAY BE STALLING OUT. PRESENT UNCERTAINTIES ABOUT CHANGE IN GOVT LEADERSHIP AND

DIET PASSAGE OF DEFICIT FINANCING BILL, WHICH COULD RESULT IN SLOWDOWN OF GOVT EXPENDITURE AND PUBLIC WORKS CONTRACTING, HAVE HEIGHTENED BUSINESSMEN'S FEARS. LESS FAVORABLE PSYCHOLOGICAL CLIMATE COULD DELAY RECOVERY IN FIXED AND INVENTORY INVESTMENT. ADMITTEDLY, INDUSTRIAL PRODUCTION INCREASED ONLY FRACTIONALLY IN PAST 3 MONTHS (APR TO JULY PRELIM) BUT EMBASSY CONSIDERS THIS CAUSED BY COMPOSITIONAL SHIFTS, ESPECIALLY TOPPING OUT AT HIGH PRODUCTION LEVELS IN SOME INDUSTRIES THAT HAVE ALREADY RECOVERED ALONG WITH CONTINUED ADVANCE OF THOSE INDUSTRIES THAT INITIALLY LAGGED RECOVERY PROCESS. THEREFORE EMBASSY EXPECTS CONTINUATION OF THE ECONOMIC ADVANCE ALBEIT A SLOWER PACE THAN IN THE FIRST HALF OF THE YEAR.

2. SECOND QUARTER PROVISIONAL GNP STATISTICS TO BE RELEASED IN NEXT FEW DAYS WILL PROBABLY RECORD REAL INCREASE OF AROUND 1.3 PERCENT FROM PRIOR QUARTER AND POSSIBLY SOME DOWNWARD REVISION OF PREVIOUSLY ESTIMATED FIRST QUARTER RISE OF 3.5 PERCENT. SUCH A GNP RISE IN FIRST HALF OF 1976 AT ANNUAL RATE OF 9.3 PERCENT DIFFERS ONLY SLIGHTLY FROM EMBASSY'S PREVIOUS PROJECTION. PROSPECT IS THAT IN SECOND HALF 1976 REAL GNP ADVANCE WILL BE MUCH MORE MODEST AT ABOUT 5 PERCENT ANNUAL RATE AND FOR FULL YEAR 1976 REAL GNP INCREASE IS ESTIMATED AT 6.7 PERCENT.

3. VARIOUS MONTHLY DEMAND INDICATORS, REPORTED IN WEEKLY FINANCIAL AND ECONOMIC DEVELOPMENTS CABLES, GAVE A RELATIVELY GLOOMY PICTURE FOR THE SECOND QUARTER (SEE TABLE 1 BELOW). EMBASSY CONSIDERS MOVEMENTS OF THESE INDICATORS TO BE AN UNRELIABLE GUIDE TO CHANGES IN THE OVERALL ECONOMY AS MEASURED BY GNP. NEVERTHELESS, BUSINESSMEN, WHO PAY CLOSE ATTENTION TO THESE INDICATORS, HAVE BECOME WARY THAT RECOVERY MOMENTUM IS BEING LOST AND THAT ECONOMY MAY WELL BE ENTERING INTO A LULL SUCH AS A YEAR AGO. GOJ OFFICIALS ARE ALSO REASSESSING SHORT-TERM PROSPECTS ALTHOUGH LESS THAN A MONTH AGO EPA CONFIDENTLY DECLARED THE "ECONOMIC RECOVERY IS REALLY ROLLING NOW ALTHOUGH WHOLESALE PRICES ARE RISING AT A FAIRLY HIGH TEMPO." DESPITE THOSE APPREHENSIONS, EMBASSY IS ENCOURAGED THAT INDICATORS ALREADY AVAILABLE FOR JULY SUGGEST DOMESTIC PERFORMANCE SEEMS TO BE PICKING UP AGAIN.

TABLE 1 - MONTHLY INDICATORS, S.A.
(PERCENT CHANGES, QUARTERLY RATES)

	I	II	III	IV	TO JULY
LIMITED OFFICIAL USE					
LIMITED OFFICIAL USE					

PAGE 03 TOKYO 13265 01 OF 02 021009Z

DEMAND:

HOUSEHOLD EXPENDITURES	5.1	1.7
DEPT STORE SALES	4.9	0.5 1.2
AUTO REGISTRATIONS	-10.4	2.9
NEW MACHINERY ORDERS	34.0	-12.3
NEW CONSTRUCTION ORDERS -		
GOVT	-5.5	-4.0 18.8
PRIVATE	11.0	-14.4 18.3
EXPORTS - QUANTUM	17.8	1.4 - 6.0
IMPORTS - QUANTUM	8.6	2.0 3.5

MONETARY INDICATORS:

M2 4.1 3.3
 LOANS AND DISCOUNTS 2.8 2.7

PRODUCTION AND SHIPMENTS:

IND PRODUCTION-MIN & .*&. 5.8 5.4 2.2
 SHIPMENTS-MIN & MFG. 5.7 4.2 1.6

4. EMBASSY CONSIDERS PRODUCTION AND SHIPMENTS INDICES, WHICH ARE DERIVED PRIMARILY FROM MEASURING ACTUAL VOLUME, TO BE THE MOST COMPREHENSIVE, SENSITIVE AND RELIABLE MONTHLY GUIDE TO OVERALL ECONOMIC ACTIVITY. THOSE INDICES CONFIRM THAT IN RECENT MONTHS THERE HAS INDIEED BEEN SOME HESITANCY IN THE PACE OF ADVANCE WHICH HAD BEEN RUNNING AT AN UNSUSTAINABLE ANNUAL RATE OF INCREASE OF OVER 30 PERCENT FROM DEC TO APR. AS CAN BE SEEN FROM TABLE 2 BELOW, PRODUCTION IN SOME SECTORS HAS ALREADY PEAKED OUT. FOR DURABLE CONSUMER GOODS AND PRODUCTION OF SOME CAPITAL GOODS, INDUSTRIES ARE APPARENTLY ALREADY RUNNING AT FULL CAPACITY. ON THE OTHER HAND, OTHER SECTORS, E.G. NON-DURABLE CONSUMER GOODS AND PRODUCER (INTERMEDIATE) GOODS SECOTRS, ACCOUNTING FOR ONE-HALF OF TOTAL PRODUCTION, HAVE RECOVERED MORE SLOWLY AND ARE EXPECTED TO ADVANCE STEADILY. MOREOVER, UNWANTED INVENTORY OVERHANG IN MANY INDUSTRIES HAS NOW BEEN REDUCED TO MORE MANAGEABLE LEVELS. ALL THIS AUGURS WELL FOR A BROADLY BASED ADVANCE IN PRODUCTION AND SHIPMENTS.

TABLE 2 - INDUSTRIAL PRODUCTION

(PERCENT CHANGES, QUARTERLY RATES)

PCT I II II AV TO JULY

CAPITAL GOODS 23 10.4 5.9 1.0

CAPITAL GOODS

EXCL. SHIPS 16 8.8 6.2 0.4

DURABLE CONSUMER

GOODS 10 10.6 7.6 -2.8

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 TOKYO 13265 01 OF 02 021009Z

NONDURABLE CONSUMER

GOODS 14 3.0 4.9 4.3

PRODUCER (INTER-

MEDIATE GOODS) 41 4.0 4.4 4.5

CONSTRUCTION

MATERIALS 9 2.9 3.9 0.4

TOTAL MIN. & MFG. 97 5.8 5.4 2.2

SHIPMENTS MIN & MFG. 5.7 4.2 1.6

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 TOKYO 13265 02 OF 02 021826Z

42

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 INT-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-05 AGRE-00 /099 W

----- 089671

P R 020813Z SEP 76

FM AMEMBASSY TOKYO

TO TREASURY DEPT WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 2021

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS UNN

LIMITED OFFICIAL USE SECTION 2 OF 2 TOKYO 13265

TREASURY FOR SYVRUD

DEPT PASS CEA, FEDERAL RESERVE AND COMMERCE

5. RAPID RECOVERY IN PAST YEAR HAS BEEN HIGHLY CONCERNTRATED IN THE MACHINERY INDUSTRY WHICH IS AGAIN OPERATING AT A RATE OVER 100 PERCENT (1970 BASE-YEAR LEVEL). ALL OTHER INDUSTRIES ARE STILL OPERATING AT CONSIDERABLE EXCESS CAPACITY WITH SOME AT RATES BELOW A YEAR AGO. THEREFORE THERE IS STILL AMPLE PRODUCTIVE CAPACITY FOR RECOVERY IN PRODUCTION EXCEPT FOR A RELATIVELY FEW INDUSTRIES THAT HAVE ALREADY ENJOYED EXCEPTIONAL INCREASES IN DEMAND (SEE TABLE 3 BELOW).

TABLE 3 - OPERATING RATES (INDEX, 1970 EQUALS 100)

INDEX THROUGH

WEIGHT MAY 75 JUNE 76

MANUFACTURING-TOTAL 100 79.7 88.9

IRON AND STEEL 16 80.9 78.8

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 13265 02 OF 02 021826Z

NON-FERROUS METALS 5 71.5 86.2

FABRICATED METALS 2 71.7 62.0

MACHINERY 35 86.4 100.9

CERAMICS	4	75.8	87.1
CHEMICALS	11	71.5	75.4
PETROLEUM & COAL PRODUCTS	4	80.2	73.8
PULP, PAPER & PRODUCTS	4	76.9	80.6
TEXTILES	18	78.0	91.2
RUBBER PRODUCTS	1	85.5	85.8

6. EMBASSY DOES NOT EXPECT ANY FALTERING IN RECOVERY OF DOMESTIC DEMAND. CONSUMER SPENDING REMAINS STRONG AND ALREADY THERE HAS BEEN A DROP IN THE VERY HIGH SAVINGS RATE (TOKYO 13192). RATE OF INVESTMENT SHOULD BE RISING FROM LOW LEVEL RECORDED IN THE FIRST QUARTER. RECENT SURVEYS OF PLANT AND EQUIPMENT SPENDING CON-

FIRM PREVIOUS EXPECTATION THAT RECOVERY WILL BE LED BY ELECTRIC

UTILITIES AND STEEL WHICH CAN NO LONGER DEFER BUILDING ADDITIONAL CAPACITY, WHEREAS MOST OTHER INDUSTRIES REMAIN CAUTIOUS ABOUT NEW INVESTMENT. NEVERTHELESS, HENCEFORTH PLANT AND EQUIPMENT INVESTMENT WILL STRENGTHEN GROWTH IN FINAL DEMAND. GOVT EXPENDITURE WHICH LAST YEAR HAD A DESTABILIZING INFLUENCE, IS AGAIN THREATENED BY POLITICAL FACTORS, NAMELY, DIET DELAY IN PASSAGE OF BILL AUTHORIZING DEFICIT BOND FINANCING FOR CURRENT OPERATING EXPENDITURES. EMBASSY REJECTS THE VIEW OF SOME JAPANESE THAT CONTINUING DELAYS IN PASSAGE OF BILL WILL RESULT IN SIGNIFICANT CUTBACK IN GOVT SPENDING AND THUS MAY PUT ECONOMIC RECOVERY INTO A TAILSPIN. NET FOREIGN DEMAND HAS ALREADY SLOWED WITH PICKUP IN IMPORT VOLUME AND RECENT DECLINES IN EXPORT VOLUME (SEE TABLE 2). THAT IS FULLY CONSISTENT WITH EMBASSY'S PREVIOUS EXPECTATION THAT NET FOREIGN BALANCE IN REAL TERMS WILL DECLINED FROM VERY HIGH FIRST QUARTER LEVEL AND BE A RETARDED INFLUENCE ON GNP GROWTH.

7. INCREASES IN WPI SUGGEST RESURGENCE OF INFLATION WHICH POLICY WILL HAVE TO DEAL WITH IN 1977. IN PAST SIX MONTHS WPI (N.S.A) HAS INCREASED AT ANNUAL RATE OF 7.4 PERCENT (8.5 PERCENT IN LAST 3 MONTHS), WHICH COULD ABATE AS MORE INDUSTRIES ACHIEVE MORE PROFITABLE OPERATING RATES.

8. FOLLOWING IS EMBASSY'S MOST CURRENT PROJECTION OF REAL GNP, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 13265 02 OF 02 021826Z

INDUSTRIAL PRODUCTION AND WHOLESALE PRICES WHICH ASSUMES NO MAJOR ECONOMIC POLICY CHANGES DURING REMAINDER OF 1976.

TABLE 4 - REVISED EMBASSY PROJECTION
(PERCENT CHANGES FROM PREVIOUS PERIOD)

IND PROD			
REAL GNP MIN & MFG WPI			
(S.A.) (S.A. (N.S.A.)			
CY 1975 (A)	2.1	-10.9	3.0
1976 (F)	6.7	14.4	5.9
1976 I (A)	3.5	5.8	2.0

II (F)	1.3	5.4	1.6
III (F)	1.0	2.0	2.1
IV (F)	1.6	2.2	2.0

A - ACTUAL F - FORECAST
SHOESMITH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO13265
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760333-0999
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760995/aaaaddti.tel
Line Count: 282
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 TOKYO 8929
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by CollinP0>; APPROVED <11 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISED ECONOMIC OUTLOOK FOR JAPAN
TAGS: EFIN, ECON, JA
To: TRSY STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006